

IOI Corp (IOI MK)

Production Growth To Sustain Positive Momentum

Highlights

- Management remains sanguine on its FFB growth trajectory in 2HFY26, with full-year output expected to rise 5-8% yoy as its accelerated replanting programme has reached a positive inflection point.
- A broad-based earnings recovery for its downstream segment however may stay elusive, with the outlook for 2HFY26 across sub-segments still rather mixed.
- Maintain HOLD on IOI with unchanged SOTP-derived target price of RM4.30.

Analysis

- **1HFY26 results recap.** IOI Corp (IOI) reported a higher 1HFY26 core net profit of RM808m (+13% yoy), which is deemed in line at 55% and 58% of ours and consensus estimates respectively. The stronger results were mainly driven by the downstream segment's sharp rebound in underlying profit to RM198m (+175% yoy) as its refining business turned EBIT-positive vs 1H25's operating losses. The upstream plantation segment also contributed positively with a higher underlying profit contribution of RM908m (+5% yoy); this was in turn driven by a 13% yoy rise in FFB yields albeit offset by a 4% yoy decline in harvested mature area as well as slightly lower CPO realised prices (-2% yoy).
- **Production outlook.** Despite a sharp moderation in FFB output observed during the current low production cycle, management nonetheless remains optimistic of a full-year growth of 5-8% in FFB output (1HFY26: +8% yoy). For 3QFY26, the group believes Feb 26's FFB output may decline faster by 20% mom vs Jan 26 (-12% mom) due to the wet weather conditions that are affecting operations in Sabah; subsequently however, Mar 26 output is expected to pick up by 10% mom and continue to ramp up in the following months. Separately, its accelerated replanting programme – which began in FY19 – is expected to hit 10,000ha this year (vs 8,000ha/year previously) and continue into FY27 with another 9,000ha of replanting before tapering off from FY28-29 onwards.
- **CPO production costs expected to be stable.** Management expects CPO production costs (ex-palm kernel credits) to remain relatively flattish vs FY25, at around RM2,000/tonne, with procured prices of fertiliser for FY26 thus far coming in slightly lower by low single digits yoy; the cost savings however may be offset by additional usage of compound fertiliser usage in 2HFY26.

Key Financials

Year to 30 Jun (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	9,604	11,335	11,146	11,349	11,459
EBITDA	1,537	1,837	1,914	1,997	2,067
Operating profit	1,140	1,432	1,482	1,549	1,608
Net profit (rep./act.)	1,088	1,521	1,472	1,692	1,827
Net profit (adj.)	1,088	1,320	1,472	1,692	1,827
EPS (sen)	17.3	21.0	21.6	23.1	24.1
PE (x)	21.5	18.8	18.3	17.1	16.4
P/B (x)	2.0	2.0	1.9	1.8	1.7
EV/EBITDA (x)	24.6	14.6	14.1	13.3	12.6
Dividend yield (%)	2.6	2.7	2.8	3.0	3.2
Net margin (%)	11.3	13.4	12.2	12.8	13.2
Net debt/(cash) to equity (%)	13	13.3	13.3	9.7	6.0
Interest cover (x)	13	17.1	18.4	19.7	23.2
ROE (%)	9.5	14.2	12.3	12.7	12.9
Consensus net profit	-	-	1,402	1,554	1,782
UOBKH/Consensus (x)	-	-	1.05	1.06	1.04

Source: IOI, Bloomberg, UOB Kay Hian

HOLD (Maintained)

Share Price	RM3.98
Target Price	RM4.30
Upside	8.0%

Analyst(s)

Lester Siew

lestersiew@uobkayhian.com

+603 2147 1990

Stock Data

GICS sector	Consumer Staples
Bloomberg ticker:	IOI MK
Shares issued (m):	6,285.2
Market cap (RMm):	24,890.5
Market cap (US\$m):	5,962.7
3-mth avg daily t'over (US\$m):	2.2

Price Performance (%)

52-week high/low				RM5.32/RM4.42
1mth	3mth	6mth	1yr	YTD
1.3	3.4	8.5	5.3	2.3

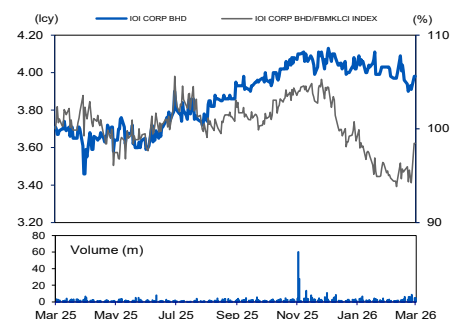
Major Shareholders

	%
Lee Shin Cheng Family	49.8%
Employees Provident Fund	18.1%

Balance Sheet Metrics

	%
FY26 NAV/Share (RM)	1.96
FY26 Net Debt/Share (RM)	0.26

Price Chart



Source: Bloomberg

Company Description

Integrated palm oil player.

- **Downstream outlook.** IOI continues to see challenging operating conditions for the segment despite 1HFY26's stronger yoy performance, having noted the sequentially weaker 2QFY26 results across both refinery and oleochemicals sub-segments. For the refinery business, its fractionation margins have turned negative in recent months, pressured by excess inventory levels in the market, particularly by Indonesia's competing refiners which were previously affected by logistics disruptions. On the other hand, its oleochemical business may see an uptick in sales volume during 2HFY26 as management anticipates restocking activities by its customers in Europe. As for its associate Bunge Lodgers Croklaan (BLC), earnings contribution is expected to remain fairly stable despite the recent drop in cocoa butter margins, as this is likely to be offset by added production capacity in the US starting from 4QFY26.
- **Other highlights.** On forex fluctuations, management does not see a significant impact given its existing currency hedges. Forward sales position on the other hand has been relatively light, with management hedging only 5% of its three-month forward sales volume. Capex for FY26 is earmarked at RM1b, which includes allocations for the construction of an industrial park in Pahang alongside its plan to expand its coconut landbank (3,600ha in the next few years). As for CPO price expectations, management believes CPO prices would continue to be supported at above the RM4,000/tonne level.

Valuation/Recommendation

- **Maintain HOLD with an unchanged target price of RM4.30.** Our SOTP valuation parameters remain unchanged, which include our fair value estimate of S\$1.45/share for its Bunitama associate, 17x FY26F PE for the plantation division, 15x FY26F PE for the resources-based manufacturing (downstream) division and 18x PE for the contribution from associate Lodgers.

Earnings Revision/Risk

- **FY26-27 estimates unchanged.** For FY26, we continue to forecast a 12% yoy rise in core earnings based on our latest CPO price forecast of RM4,250/tonne and FFB growth of 6% for the year, as well as an anticipated recovery in downstream segment profitability.

Share Price Catalyst

- Better-than-expected CPO prices and production growth.
- Accelerated development of new business verticals.
- Potential M&A activities.

Environmental, Social, Governance (ESG)

Environmental

- All Malaysian estates are MSPO-certified, while 96% of the estates are RSPO-certified.

Social

- The US Customs and Border Protection says palm oil produced by SDG is no longer "being mined, produced, or manufactured wholly or in part with the use of convict, forced, or indentured labour".

Governance

- Transparent communication and response to any ongoing cases involving the community. Implementation of programmes related to health, education, medical assistance, and other community enrichment acts.

Key Assumptions

	FY26F
FFB production growth	6.1% yoy
CPO Prices	RM4,250/tonne
Downstream Margin	1.5%

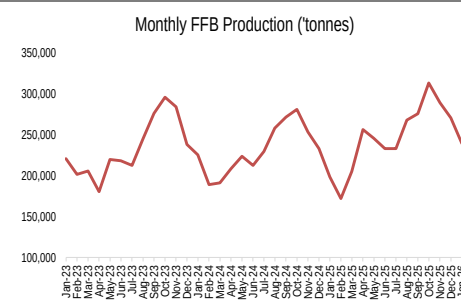
Source: UOB Kay Hian

SOTP Valuation

	PE (x)	RM/share
Plantations	17	3.34
Manufacturing	15	0.27
Stake in Bunitama	-	0.42
(Fair value: S\$1.45/share)		
Contribution from Lodgers	18	0.50
Less: Net Debt		(0.26)
IOI's fair value (round-off)		4.30

Source: IOI, UOB Kay Hian

Monthly FFB Production Growth



Source: IOI

Profit & Loss

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Net turnover	11,335	11,146	11,349	11,459
EBITDA	1,837	1,914	1,997	2,067
Deprec. & amort.	405	431	448	459
EBIT	1,432	1,482	1,549	1,608
Total other non-operating income	0	0	0	0
Associate contributions	351	373	406	424
Net interest income/(expense)	(107)	(104)	(101)	(89)
Pre-tax profit	1,878	1,858	2,123	2,307
Tax	(341)	(343)	(354)	(381)
Minorities	(16)	(14)	(15)	(15)
Net profit	1,521	1,472	1,692	1,827
Net profit (adj.)	1,320	1,472	1,692	1,827

Balance Sheet

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Fixed assets	9,532	9,814	10,083	10,328
Other LT assets	3,184	3,215	3,247	3,279
Cash/ST investment	1,452	1,336	1,291	1,788
Other current assets	125	125	125	125
Total assets	17,792	18,126	18,518	19,239
ST debt	709	709	709	709
Other current liabilities	260	260	260	260
LT debt	2,807	2,618	2,430	2,098
Other LT liabilities	1,206	1,056	906	906
Shareholders' equity	11,582	12,202	12,879	13,641
Minority interest	344	358	372	382
Total liabilities & equity	17,792	18,126	18,518	19,239

Cash Flow

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Operating	944	1,366	1,702	1,800
Pre-tax profit	1,878	1,858	2,123	2,307
Tax	(341)	(343)	(354)	(381)
Deprec. & amort.	405	431	448	459
Working capital changes	(275)	(270)	(41)	(22)
Other operating cashflows	(722)	(165)	(167)	(162)
Investing	-537	-536	-536	-536
Capex (maintenance)	(700)	(900)	(700)	(700)
Investments	0	0	0	0
Proceeds from sale of assets	2	3	3	3
Others	162	162	162	162
Financing	(864)	(909)	(956)	(988)
Dividend payments	(660)	(706)	(753)	(785)
Issue of shares	0	0	0	0
Proceeds from borrowings	3	4	4	4
Loan repayment	(193)	(193)	(193)	(193)
Others/interest paid	(14)	(14)	(14)	(14)
Net cash inflow (outflow)	(456)	(278)	211	277
Beginning cash & cash equivalent	2,182	1,578	1,300	1,511
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	1,725	1,300	1,511	1,788

Key Metrics

Year to 30 Jun (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	17.3	16.3	16.5	16.5
Pre-tax margin	16.1	15.6	16.3	16.3
Net margin	12.1	11.7	12.3	12.3
ROA	7.6	7.6	8.2	8.2
ROE	12.6	12.4	13.1	13.1
Growth				
Turnover	12.2	4.4	4.3	4.3
EBITDA	21.1	-1.6	5.4	5.4
Pre-tax profit	24.2	-4.2	9.3	6.0
Net profit	17.8	-4.8	8.3	6.4
Net profit (adj.)	17.8	5.0	8.3	6.4
EPS	17.8	5.0	8.3	6.4
Leverage				
Debt to total capital	29.5	26.5	23.7	23.7
Debt to equity	30.3	27.3	24.4	24.4
Net debt/(cash) to equity	17.8	16.3	14.3	14.3
Interest cover (x)	12.2	12.9	14.8	14.8

IMPORTANT NOTICE - DISCLOSURES AND DISCLAIMERS

This report is provided subject to various disclosures and disclaimers (the "Disclosures / Disclaimers") which form an integral part of this report and are available at the following link:
<https://research-api.uobkayhian.com/assets/disclaimer/df64a6ea-7980-447c-ae9e-fd19b93257dc> or by scanning the QR code below:



The Disclosures / Disclaimers contain important information, including without limitation, (a) exclusions of liability, (b) confidentiality obligations, (c) restrictions on publication, circulation, reproduction, distribution and use of the report, (d) potential conflicts of interest, and (e) disclosures and requirements specific to recipients in the United States and other applicable jurisdictions.

Specifically, this report is intended for general circulation and informational purposes only and does not take into account the specific investment objectives, financial situation, or particular needs of any individual person. It is not intended to constitute personal investment advice or a recommendation to buy or sell any investment product or security. You should independently evaluate the information and, where necessary, seek advice from a qualified financial adviser regarding the suitability of any investment, taking into account your specific objectives, financial situation and needs, before making any investment decision. Analyst certifications required under applicable regulations, including SEC Regulation AC (where relevant), are included in this report.

Recipients of this report must carefully read, review and understand the full Disclosures / Disclaimers before using or relying on any information in this report. By accessing, receiving or using this report, you acknowledge and confirm that you have read, understood, accepted and agreed to be bound by the Disclosures / Disclaimers (as may be amended or updated from time to time) in full."